

McCRACKEN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER

Year Ended June 30, 2007



Members of the Board of Education
State Audit Committee
McCracken County Board of Education
Paducah, Kentucky

In planning and performing our audit of the basic financial statements of McCracken County Board of Education, we considered the Board's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

During our audit we became aware of several matters that are opportunities for strengthening internal controls or operating efficiency. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, which have been discussed with the appropriate members of management, are intended to help the Board comply with applicable laws and regulations, improve internal control, and result in other operational efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions concerning the reportable conditions and other matters.

A separate report dated October 29, 2007, contains our report on significant deficiencies in the Board's internal control.

This report is intended solely for the information and use of the management of McCracken County Board of Education, management, and the Kentucky Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Kemper CPA Group LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
October 29, 2007

Other Matters:

Comment: During testing of revenues, we noted instances where daycare receipts were not deposited in a timely manner. Timely deposits of collections results in improved cash flow while reducing the possibility of loss due to theft, fire, or impropriety. This was noted during the prior year audit.

Recommendation: Since the daycare operations are located at various elementary and middle schools, we recommend these operations follow the same guidelines governing activity funds. Collections should be deposited daily unless the amount is less than \$100. Amounts less than \$100, in the aggregate, should be deposited no less than weekly with all funds on hand maintained in a secure area.

Board Response: The administration will notify the day care operation facilities and remind them of their responsibilities of timely deposits of collections.

Comment: We noted in our testing of cash the originally prepared bank reconciliation detail did not reconcile to the individual fund cash balances per the annual financial report. The amounts in total were correct; however, transfer entries had to be made to reflect each fund's correct cash balance. This type of discrepancy could cause errors in the monthly financial reports used by the Board to make management decisions.

Recommendation: We recommend the finance director review the bank reconciliation and applicable general ledger cash account balances after all month end entries have been made to verify the bank reconciliation is in agreement with the financial report both in total and for each fund.

Board Response: The finance director will compare the general ledger cash accounts with the bank transactions to verify the bank reconciliation is in agreement with the financial report for each fund and in total.

Comment: We noted in our payroll testing that payroll expense per the payroll tax reports did not reconcile to the payroll expense per the general ledger by an unexplained immaterial difference. This could be caused by either misposting or unauthorized payments and could result in misstatement of payroll expense.

Recommendation: We recommend management reconcile payroll expense per the payroll tax reports to the payroll expense per the general ledger throughout the year with any discrepancies timely and accurately resolved and corrected.

Board Response: The payroll expense and the general ledger are currently being reconciled by the Accounting Manager. We will incorporate source documentation from the (CERS and KTRS) retirement systems when AP checks need to be disbursed when personnel retirement accounts are affected in the fringe benefit side of the general ledger reconciliation process.

**McCRACKEN COUNTY BOARD OF EDUCATION
SCHOOL ACTIVITY FUNDS**

MANAGEMENT LETTER

Year Ended June 30, 2007

ACTIVITY FUNDS

Kentucky Administrative Regulations (702 KAR 3:130) requires school activity funds to adhere to its "Accounting Procedures for Kentucky School Activity Funds", commonly referred to as the "Red Book". We noted numerous instances where activity fund records and accounting procedures were not maintained in accordance with the "Red Book" requirements. These items are noted in the remainder of this report.

Audit testing of school activity funds indicated several areas with opportunities for strengthening internal controls or operating efficiency which were present at more than one location. The matrix below indicates the following conditions.

SCHOOL LOCATIONS

	CONDITION #					
	1	2	3	4	5	6
Concord Elementary School				X	X	
Farley Elementary School	X					
Heath Elementary School		X			X	
Heath Middle School				X		
Heath High School						
Hendron/Lone Oak Elementary		X			X	
Lone Oak Elementary	X					
Lone Oak Middle School	X			X	X	X
Lone Oak High School						
Reidland Elementary School						
Reidland Middle School						
Reidland High School			X			

Condition # 1: We noted instances in which sales tax was charged to the tax exempt schools.

Recommendations: Those making purchases on behalf of the school need to utilize the school's tax exemption code. Likewise, before reimbursements are made, receipts should be reviewed to ensure sales tax is not included.

Board Response: 3 locations were noted in this condition. All have been made aware and agree to watch more closely for sales tax charges.

Condition # 2: We noted instances where the person receiving ordered merchandise did not initial the receiving report to indicate they verified receipt of the merchandise. This creates potential unauthorized payment for goods not actually received.

Recommendations: Personnel responsible for receiving merchandise should initial the receiving report after inspecting condition, type and quantity of merchandise received.

Board Response: All locations are aware of the importance of verifying receipt of goods and will continue to monitor for initials.

Condition # 3: We noted one instances where bingo receipts and disbursements were maintained within the activity funds. This poses potential legal, tax, insurance, and bonding concerns for the District.

Recommendations: While the *Accounting for School Activity Funds (Red Book)* does not specifically address the accounting for this fund-raising activity, we believe the Board should obtain written guidance from the Kentucky Department of Education concerning whether this activity should be maintained in a separate booster club, thereby, reducing the Board's potential problems associated with operating these activities.

Board Response: KDE has been notified of this situation, and we along with all other districts are awaiting an official response concerning the accounting for bingo fundraising at a particular school.

Condition #4: In testing disbursements and receipts, we noted instances where collections were either not remitted to the school treasurer or deposited into the bank in a timely manner. Timely submission and deposit of collections results in improved cash flow while reducing the possibility of loss due to theft, fire, or impropriety.

Recommendations: We recommend receipts collected be submitted to the school treasurer and deposited daily unless the amount is less than \$100. Amounts less than \$100, in the aggregate, should be deposited no less than weekly with all funds on hand maintained in a secure area.

Board Response: We noted 3 locations with this condition, and they will comply with this recommendation in the future.

Condition #5: In testing receipts, we noted instances in which the multiple receipt form was not fully completed with missing signatures, amounts, and/or missing accounts, or was completed after the deposit date. It is important the multiple receipt form is completed in its entirety to ensure the proper amounts are deposited to the bank and credited to the correct account.

Recommendations: Personnel completing the multiple receipt form should make an effort to be sure all parts of the form are completed prior to turning the form into the bookkeeper.

Board Response: 4 locations were noted with this condition. All will comply with this recommendation.

Condition #6: In testing ticket sales there was one instance in which the ticket-seller control sheet was not fully completed due to missing signatures and ending ticket numbers. It is important for the ticket seller to sign off when completing the form to ensure that others do not make changes after-the-fact. Also, ending ticket numbers should be included on the form as a control for the next use of the tickets. This helps ensure that receipts from a given event can be quickly reconciled.

Recommendations: We recommend that when forms and tickets are being returned, the forms should be reviewed for proper completion.

Board Response: 1 location was noted with this condition and that school agreed to be more careful in completing the form at future events.

District Wide

The following general comments were noted concerning activity funds throughout the district:

Comment: The revised "Red Book" is available on the internet.

Recommendations: All personnel involved with activity funds should be aware of the availability of the "Red Book" on the internet. In addition, a copy should be available for reference at each school.

Board Response: All personnel have been notified in the past year concerning availability of the Red Book on the internet. We will again, notify all personnel affected where they can find the Red Book on the internet.

Comment: During testing of employee bonding, we noted activity fund custodians/bookkeepers were only bonded to \$150,000 for most of the fiscal year ended June 30, 2007, when some of these personnel were at various times handling amounts in excess of \$150,000. Failure to adequately bond these individuals puts the Board at risk of inadequate insurance against misappropriation of funds.

Recommendations: We recommend management review personnel bonded and adjust bonding to \$200,000 to insure adequate coverage.

Board Response: Bonding levels for bookkeepers at the affected schools has subsequently been increased to \$200,000.